

Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03

OPIC-03 XMB-02 /095 W

----- 023163

R 051020Z MAY 75

FM AMEMBASSY ABU DHABI

TO /SECSTATE WASHDC 2907

INFO AMEMBASSY TEHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY DOHA

C O N F I D E N T I A L ABU DHABI 0963

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJ: ADPC-ADNOC NEGOTIATIONS

1. SUMMARY: OWNERS OF ONSHORE PRODUCER ADPC AND THEIR 60 PERCENT PARTNER ABU DHABI NATIONAL OIL COMPANY HAVE JUST CONCLUDED JOINT MANAGEMENT COMMITTEE MEETING TO CONSIDER DEVELOPMENT PROGRAM OVER NEXT TWO OR THREE YEARS. SESSION HERE DID NOT RESULT IN MEETING OF MINDS BUT IT ENDED ON RELATIVELY AMICABLE NOTE WITH MINISTER OF PETROLEUM OTAIBA AGREEING THAT COMPANIES HAD A RIGHT TO KNOW WHAT WAS IN IT FOR THEM BEFORE KICKING IN SUBSTANTIAL FURTHER INVESTMENT. ADNOC AND ADPC AGREED TO RESUME DISCUSSIONS MAY 28. END SUMMARY.

2. SOMEWHAT ASIDE FROM QUESTION OF PRICE AND PRODUCTION LEVELS FOR 1975, ADPC OWNERS AND ADNOC HAVE BEEN QUIETLY BATTLING FOR SOME TIME OVER QUESTION OF DEVELOPMENT BUDGET OVER NEXT 2-3 YEAR PERIOD. AT STAKE IS SOME \$80 MILLION OF EXPENDITURE, ESTIMATED COST OF

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ACTIVITIES THAT ADNOC WANTS OVER AND ABOVE CAPITAL EXPENDITURE

ADPC BELIEVES NECESSARY OR APPROPRIATE. ADNOC TEAM, LED MAINLY BY ALGERIAN MANAGING DIRECTOR HAMRA-KROUHA, HAS BEEN TAKING POSITION THAT DEVELOPMENT PROGRAM SHOULD BE ACCELERATED FOR PURPOSE OF FURTHER DEFINING ABU DHABI'S OIL RESOURCES. THIS "INVENTORY PHILOSOPHY" (AS ADNOC MANAGING DIRECTOR DESCRIBED IT) IS IN SHARP OPPOSITION TO ADPC OWNER APPROACH, WHICH IS THAT INVESTMENT MUST BE RELATED PRIMARILY TO PRODUCTION LEVEL. AS LONG AS PRODUCTION ALLOWABLE

(PRESENTLY ONE MBD UNDER TERMS OF AGREEMENT RECENTLY ACHIEVED BETWEEN ADPC AND GOVERNMENT) IS COMFORTABLY BELOW PRODUCTION CAPACITY (PRESENTLY 1.28 MBD) OWNERS ARE NOT WILLING TO PUR IN THEIR SHARE OF CAPITAL DEVELOPMENT COSTS WHEN THERE IS NOT LIKELY TO BE RETURN ON THEIR MONEY IN TERMS OF INCREASED LIFTINGS IN FORESEEABLE FUTURE. BOTH SIDES EXPOUNDED THEIR RESPECTIVE POSITIONS AT LENGTH BUT THERE WAS LITTLE NARROWING OF THE GAP. OTAIBA, SITTING FOR MOST PART AS BYSTANDER IN DISCUSSIONS, TACTFULLY CLOSED MEETING WITH STATEMENT THAT COMPANIES COULD NOT BE EXPECTED TO PUT UP THIS KIND OF CAPITAL UNLESS THEY HAD SOME IDEA OF RETURN THEY WOULD BE GETTING ON IT. HE SUGGESTED THAT JOINING MANAGEMENT COMMITTEE DISCUSSIONS RESUME ON MAY 28.

3. AGREEMENT TO DISAGREE ON INVESTMENT PLAN DOES NOT SEEM TO HAVE SERIOUSLY INTERFERED WITH UNDERSTANDING REACHED BY ADPC AND ABU DHABI DEPARTMENT OF PETROLEUM ON PRICE AND PRODUCTION LEVELS FOR REMAINDER OF THIS YEAR. ADPC LIFTINGS WERE ABOUT 800,000 B/D LAST MONTH, FAIRLY CLOSE TO ESTIMATED 900,000 B/D THAT ADPC WILL HAVE TO LIFT FOR REMAINDER OF YEAR TO MEET ITS PART OF TARGETED AVERAGE PRODUCTION FOR 1975 OF 1.5 MBD. ADPC GENERAL MANAGER CONFIRMED THAT ADPC (AS WELL AS ADMA) IS GETTING 10 CENT DISCOUNT ON BUY-BACK OIL BELOW PRICE WHICH IS NOMINALLY FIXED AT 93 PERCENT OF POSTING.

4. COMMENT: INTERESTING FEATURE OF THIS ACCOUNT OF MEETING IS OTAIBA'S CONSTRUCTIVE ROLE. OWNERS WERE VERY FAVORABLY IMPRESSED BY HIS PERFORMANCE AND HAVE HOPES THAT HE WILL LEAN ON ADNOC TO REACH COMPROMISE ON DEVELOPMENT PROGRAM. OTAIBA, HIMSELF A LATE CONVERT TO SUCH REASONABLENESS, SEEMS TO HAVE SENSED THAT ATMOSPHERE IN ABU DHABI HAS SHIFTED TOWARD DOING WHAT IS NECESSARY (WITHIN REASON) TO STABILIZE ABU DHABI'S INCOME FOR THIS YEAR AND PROVIDE BASIS FOR STABLE OIL OPERATIONS IN FUTURE YEARS.

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